STATEMENT OF THE HONORABLE R. JAMES NICHOLSON

SECRETARY OF VETERANS AFFAIRS

FOR PRESENTATION BEFORE THE HOUSE COMMITTEE ON THE BUDGET

MARCH 1, 2007

Mr. Chairman and members of the Committee, good morning. I am pleased to be here today to present the President's 2008 budget proposal for the Department of Veterans Affairs (VA). The request totals $86.75 billion—$44.98 billion for entitlement programs and $41.77 billion for discretionary programs.

The total budget request is $37.80 billion, or 77 percent, above the funding level in effect when the President took office. The 2008 request for discretionary funding is $18.74 billion (or 81.4 percent) above the discretionary resource level available in 2001. The growth in funding for entitlement programs from 2001 to 2008 is similar—$19.06 billion (or 73.5 percent). Nearly 90 percent of the increase in entitlement costs is accounted for by compensation payments to veterans with service-connected disabilities as well as their survivors.

The President's requested funding level will allow VA to continue to improve the delivery of benefits and services to veterans and their families in three primary areas that are critical to the achievement of our mission:

- to provide timely, high-quality health care to a growing number of patients who count on VA the most—veterans returning from service in Operation Iraqi Freedom and Operation Enduring Freedom, veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs;
- to improve the delivery of benefits through the timeliness and accuracy of claims processing; and
- to increase veterans' access to a burial option in a national or state veterans' cemetery.

<u>Ensuring a Seamless Transition from Active Military Service to Civilian Life</u>

The President's 2008 budget request provides the resources necessary to ensure that service members' transition from active duty military status to civilian life continues to be as smooth and seamless as possible. We will continue to ensure that every seriously injured or ill serviceman or woman returning from combat in Operation Iraqi Freedom and Operation Enduring Freedom receives the treatment they need in a timely way.

Recently I announced plans to create a special Advisory Committee on Operation Iraqi Freedom/Operation Enduring Freedom Veterans and Families.

The panel, with membership including veterans, spouses, and parents of the latest generation of combat veterans, will report directly to me. Under its charter, the committee will focus on the concerns of all men and women with active military service in Operation Iraqi Freedom or Operation Enduring Freedom, but will pay particular attention to severely disabled veterans and their families.

We will expand our "Coming Home to Work" initiative to help disabled service members more easily make the transition from military service to civilian life. This is a comprehensive intergovernmental and public-private alliance that will provide separating service members from Operation Iraqi Freedom and Operation Enduring Freedom with employment opportunities when they return home from their military service. This project focuses on making sure service members have access to existing resources through local and regional job markets, regardless of where they separate from their military service, where they return, or the career or education they pursue.

VA launched an ambitious outreach initiative to ensure separating combat veterans know about the benefits and services available to them. During 2006 VA conducted over 8,500 briefings attended by more than 393,000 separating service members and returning reservists and National Guard members. The number of attendees was 20 percent higher in 2006 than it was in 2005 attesting to our improved outreach effort.

Additional pamphlet mailings following separation and briefings conducted at town hall meetings are sources of important information for returning National Guard members and reservists. VA has made a special effort to work with National Guard and reserve units to reach transitioning service members at demobilization sites and has trained recently discharged veterans to serve as National Guard Bureau liaisons in every state to assist their fellow combat veterans.

Each VA medical center and regional office has a designated point of contact to coordinate activities locally and to ensure the health care and benefits needs of returning service members and veterans are fully met. VA has distributed specific guidance to field staff to make sure the roles and functions of the points of contact and case managers are fully understood and that proper coordination of benefits and services occurs at the local level.

For combat veterans returning from Iraq and Afghanistan, their contact with VA often begins with priority scheduling for health care, and for the most seriously wounded, VA counselors visit their bedside in military wards before separation to assist them with their disability claims and ensure timely compensation payments when they leave active duty.

In an effort to assist wounded military members and their families, VA has placed workers at key military hospitals where severely injured service members from

Iraq and Afghanistan are frequently sent for care. These include benefit counselors who help service members obtain VA services as well as social workers who facilitate health care coordination and discharge planning as service members transition from military to VA health care. Under this program, VA staff provide assistance at 10 military treatment facilities around the country, including Walter Reed Army Medical Center, National Naval Medical Center Bethesda, Naval Medical Center San Diego, and Womack Army Medical Center at Ft. Bragg.

To further meet the need for specialized medical care for patients with service in Operation Iraqi Freedom and Operation Enduring Freedom, VA has expanded its four polytrauma centers in Minneapolis, Palo Alto, Richmond, and Tampa to encompass additional specialties to treat patients for multiple complex injuries. Our efforts are being expanded to 21 polytrauma network sites and clinic support teams around the country providing state-of-the-art treatment closer to injured veterans' homes. We have made training mandatory for all physicians and other key health care personnel on the most current approaches and treatment protocols for effective care of patients afflicted with brain injuries. Furthermore, we established a polytrauma call center in February 2006 to assist the families of our most seriously injured combat veterans and service members. This call center operates 24 hours a day, 7 days a week to answer clinical, administrative, and benefit inquiries from polytrauma patients and family members.

In addition, VA has significantly expanded its counseling and other medical care services for recently discharged veterans suffering from mental health disorders, including post-traumatic stress disorder. We have launched new programs, including dozens of new mental health teams based in VA medical facilities focused on early identification and management of stress-related disorders, as well as the recruitment of about 100 combat veterans as counselors to provide briefings to transitioning service members regarding military-related readjustment needs.

Medical Care

We are requesting $36.6 billion for medical care in 2008, a total more than 83 percent higher than the funding available at the beginning of the Bush Administration. Our total medical care request is comprised of funding for medical services ($27.2 billion), medical administration ($3.4 billion), medical facilities ($3.6 billion), and resources from medical care collections ($2.4 billion).

From 2001 to 2006, VA spent over $158 billion on the delivery of veterans' health care. Two of the most significant components of the total expenditures for veterans' health care during this period were for payroll costs for physicians, nurses, and other health care professionals and support staff ($83 billion) and for pharmaceuticals ($21.2 billion).

Legislative Proposals

The President's 2008 budget request identifies three legislative proposals which ask veterans with comparatively greater means and no compensable service-connected disabilities to assume a small share of the cost of their health care. The first proposal would assess Priority 7 and 8 veterans with an annual enrollment fee based on their family income:

Family Income	Annual Enrollment Fee
Under $50,000	None
$50,000 - $74,999	$250
$75,000 - $99,999	$500
$100,000 and above	$750

The second legislative proposal would increase the pharmacy co-payment for Priority 7 and 8 veterans from $8 to $15 for a 30-day supply of drugs. And the last provision would eliminate the practice of offsetting or reducing VA first-party co-payment debts with collection recoveries from third-party health plans.

While our budget requests in recent years have included legislative proposals similar to these, the provisions identified in the President's 2008 budget are markedly different in that they have no impact on the resources we are requesting for VA medical care. Our budget request includes the total funding needed for the Department to continue to provide veterans with timely, high-quality medical services that set the national standard of excellence in the health care industry. Unlike previous budgets, these legislative proposals do not reduce our discretionary medical care appropriations. Instead, these three provisions, if enacted, would generate an estimated $2.3 billion in mandatory receipts to the Treasury from 2008 through 2012.

Workload

During 2008, we expect to treat about 5,819,000 patients. This total is more than 134,000 (or 2.4 percent) above the 2007 estimate, and is 1,572,000 (or 37.0 percent) higher than the number of total patients we treated in 2001. Patients in Priorities 1-6—veterans with service-connected conditions, lower incomes, special health care needs, and service in Iraq or Afghanistan—will comprise 68 percent of the total patient population in 2008, but they will account for 85 percent of our health care costs. The number of patients in Priorities 1-6 will grow by 3.3 percent from 2007 to 2008.

We expect to treat about 263,000 veterans in 2008 who served in Operation Iraqi Freedom and Operation Enduring Freedom. This is an increase of 54,000 (or 26 percent) above the number of veterans from these two campaigns that we anticipate will come to VA for health care in 2007, and 108,000 (or 70 percent) more than the number we treated in 2006.

Funding Drivers

Our 2008 request for $36.6 billion in support of our medical care program was largely determined by three key cost drivers in the actuarial model we use to project veteran enrollment in VA's health care system as well as the utilization of health care services of those enrolled:

- inflation;
- trends in the overall health care industry; and
- trends in VA health care.

The impact of the composite rate of inflation of 4.45 percent within the actuarial model will increase our resource requirements for acute inpatient and outpatient care by nearly $2.1 billion. This includes the effect of additional funds ($690 million) needed to meet higher payroll costs as well as the influence of growing costs ($1.4 billion) for supplies, as measured in part by the Medical Consumer Price Index. However, inflationary trends have slowed during the last year.

There are several trends in the U.S. health care industry that continue to increase the cost of providing medical services. These trends expand VA's cost of doing business regardless of any changes in enrollment, number of patients treated, or program initiatives. The two most significant trends are the rising utilization and intensity of health care services. In general, patients are using medical care services more frequently and the intensity of the services they receive continues to grow. For example, sophisticated diagnostic tests, such as magnetic resonance imaging (MRI), are now more frequently used either in place of, or in addition to, less costly diagnostic tools such as x-rays. As another illustration, advances in cancer screening technologies have led to earlier diagnosis and prolonged treatment which may include increased use of costly pharmaceuticals to combat this disease. These types of medical services have resulted in improved patient outcomes and higher quality health care. However, they have also increased the cost of providing care.

The cost of providing timely, high-quality health care to our Nation's veterans is also growing as a result of several factors that are unique to VA's health care system. We expect to see changes in the demographic characteristics of our patient population. Our patients as a group will be older, will seek care for more complex medical conditions, and will be more heavily concentrated in the higher cost priority groups. Furthermore, veterans are submitting disability compensation claims for an increasing number of medical conditions, which are also increasing in complexity. This results in the need for disability compensation medical examinations, the majority of which are conducted by our Veterans Health Administration, that are more complex, costly, and time consuming. These projected changes in the case mix of our patient population and the growing complexity of our disability claims process will result in greater resource needs.

Quality of Care

The resources we are requesting for VA's medical care program will allow us to strengthen our position as the Nation's leader in providing high-quality health care. VA has received numerous accolades from external organizations documenting the Department's leadership position in providing world-class health care to veterans. For example, our record of success in health care delivery is substantiated by the results of the 2006 American Customer Satisfaction Index (ACSI) survey. Conducted by the National Quality Research Center at the University of Michigan Business School, the ACSI survey found that customer satisfaction with VA's health care system increased last year and was higher than the private sector for the seventh consecutive year. The data revealed that inpatients at VA medical centers recorded a satisfaction level of 84 out of a possible 100 points, or 10 points higher than the rating for inpatient care provided by the private-sector health care industry. VA's rating of 82 for outpatient care was 8 points better than the private sector.

Citing VA's leadership role in transforming health care in America, Harvard University recognized the Department's computerized patient records system by awarding VA the prestigious "Innovations in American Government Award" in 2006. Our electronic health records have been an important element in making VA health care the benchmark for 294 measures of disease prevention and treatment in the U.S.

These external acknowledgments of the superior quality of VA health care reinforce the Department's own findings. We use two primary measures of health care quality—clinical practice guidelines index and prevention index. These measures focus on the degree to which VA follows nationally recognized guidelines and standards of care that the medical literature has proven to be directly linked to improved health outcomes for patients. Our performance on the clinical practice guidelines index, which focuses on high-prevalence and high-risk diseases that have a significant impact on veterans' overall health status, is expected to grow to 85 percent in 2008, or a 1 percentage point rise over the level we expect to achieve this year. As an indicator aimed at primary prevention and early detection recommendations dealing with immunizations and screenings, the prevention index will be maintained at our existing high level of performance of 88 percent.

Access to Care

With the resources requested for medical care in 2008, the Department will be able to continue our exceptional performance dealing with access to health care—96 percent of primary care appointments will be scheduled within 30 days of patients' desired date, and 95 percent of specialty care appointments will be scheduled within 30 days of patients' desired date. We will minimize the number

of new enrollees waiting for their first appointment. We reduced this number by 94 percent from May 2006 to January 2007, to a little more than 1,400, and we will continue to place strong emphasis on lowering, and then holding, the waiting list to as low a level as possible.

An important component of our overall strategy to improve access and timeliness of service is the implementation on a national scale of Advanced Clinic Access, an initiative that promotes the efficient flow of patients by predicting and anticipating patient needs at the time of their appointment. This involves assuring that specific medical equipment is available, arranging for tests that should be completed either prior to, or at the time of, the patient's visit, and ensuring all necessary health information is available. This program optimizes clinical scheduling so that each appointment or inpatient service is most productive. In addition, this reduces unnecessary appointments, allowing for relatively greater workload and increased patient-directed scheduling.

Funding for Major Health Care Programs and Initiatives

Our request includes $4.6 billion for extended care services, 90 percent of which will be devoted to institutional long-term care and 10 percent to non-institutional care. By continuing to enhance veterans' access to non-institutional long-term care, the Department can provide extended care services to veterans in a more clinically appropriate setting, closer to where they live, and in the comfort and familiar settings of their homes surrounded by their families. This includes adult day health care, home-based primary care, purchased skilled home health care, homemaker/home health aide services, home respite and hospice care, and community residential care. During 2008 we will increase the number of patients receiving non-institutional long-term care, as measured by the average daily census, to over 44,000. This represents a 19.1 percent increase above the level we expect to reach in 2007 and a 50.3 percent rise over the 2006 average daily census.

The President's request includes nearly $3 billion to continue our effort to improve access to mental health services across the country. These funds will help ensure VA provides standardized and equitable access throughout the Nation to a full continuum of care for veterans with mental health disorders. The resources will support both inpatient and outpatient psychiatric treatment programs as well as psychiatric residential rehabilitation treatment services. We estimate that about 80 percent of the funding for mental health will be for the treatment of seriously mentally ill veterans, including those suffering from post-traumatic stress disorder (PTSD). An example of our firm commitment to provide the best treatment available to help veterans recover from these mental health conditions is our ongoing outreach to veterans of Operation Iraqi Freedom and Operation Enduring Freedom, as well as increased readjustment and PTSD services.

In 2008 we are requesting $752 million to meet the needs of the 263,000 veterans with service in Operation Iraqi Freedom and Operation Enduring Freedom whom we expect will come to VA for medical care. Veterans with service in Iraq and Afghanistan continue to account for a rising proportion of our total veteran patient population. In 2008 they will comprise 5 percent of all veterans receiving VA health care compared to the 2006 figure of 3.1 percent. Veterans deployed to combat zones are entitled to 2 years of eligibility for VA health care services following their separation from active duty even if they are not otherwise immediately eligible to enroll for our medical services.

Medical Collections

The Department expects to receive nearly $2.4 billion from medical collections in 2008, which is $154 million, or 7.0 percent, above our projected collections for 2007. As a result of increased workload and process improvements in 2008, we will collect an additional $82 million from third-party insurance payers and an extra $72 million resulting from increased pharmacy workload.

We have several initiatives underway to strengthen our collections processes:

- The Department has established a private-sector based business model pilot tailored for our revenue operations to increase collections and improve our operational performance. The pilot Consolidated Patient Account Center (CPAC) is addressing all operational areas contributing to the establishment and management of patient accounts and related billing and collections processes. The CPAC currently serves revenue operations for medical centers and clinics in one of our Veterans Integrated Service Networks but this program will be expanded to serve other networks.
- VA continues to work with the Centers for Medicare and Medicaid Services contractors to provide a Medicare-equivalent remittance advice for veterans who are covered by Medicare and are using VA health care services. We are working to include additional types of claims that will result in more accurate payments and better accounting for receivables through use of more reliable data for claims adjudication.
- We are conducting a phased implementation of electronic, real-time outpatient pharmacy claims processing to facilitate faster receipt of pharmacy payments from insurers.
- The Department has initiated a campaign that has resulted in an increasing number of payers now accepting electronic coordination of benefits claims. This is a major advancement toward a fully integrated, interoperable electronic claims process.

Medical Research

The President's 2008 budget includes $411 million to support VA's medical and prosthetic research program. This amount will fund nearly 2,100 high-priority

research projects to expand knowledge in areas critical to veterans' health care needs, most notably research in the areas of mental illness ($49 million), aging ($42 million), health services delivery improvement ($36 million), cancer ($35 million), and heart disease ($31 million).

VA's medical research program has a long track record of success in conducting research projects that lead to clinically useful interventions that improve the health and quality of life for veterans as well as the general population. Recent examples of VA research results that are now being applied to clinical care include the discovery that vaccination against varicella-zoster (the same virus that causes chickenpox) decreases the incidence and/or severity of shingles, development of a system that decodes brain waves and translates them into computer commands that allow quadriplegics to perform simple tasks like turning on lights and opening e-mail using only their minds, improvements in the treatment of post-traumatic stress disorder that significantly reduce trauma nightmares and other sleep disturbances, and discovery of a drug that significantly improves mental abilities and behavior of certain schizophrenics.

In addition to VA appropriations, the Department's researchers compete for and receive funds from other federal and non-federal sources. Funding from external sources is expected to continue to increase in 2008. Through a combination of VA resources and funds from outside sources, the total research budget in 2008 will be almost $1.4 billion.

General Operating Expenses

The Department's 2008 resource request for General Operating Expenses (GOE) is $1.472 billion. This is $617 million, or 72.2 percent, above the funding level in place when the President took office. Within this total GOE funding request, $1.198 billion is for the administration of non-medical benefits by the Veterans Benefits Administration (VBA) and $274 million will be used to support General Administration activities.

Compensation and Pensions Workload and Performance Management

VA's primary focus within the administration of non-medical benefits remains unchanged—delivering timely and accurate benefits to veterans and their families. Improving the delivery of compensation and pension benefits has become increasingly challenging during the last few years due to a steady and sizeable increase in workload. The volume of claims applications has grown substantially during the last few years and is now the highest it has been in the last 15 years. The number of claims we received was more than 806,000 in 2006. We expect this high volume of claims filed to continue, as we are projecting the receipt of about 800,000 claims a year in both 2007 and 2008.

VA's processing of the increased claims volume has led to a significant rise in the number of veterans and their survivors receiving compensation or pension payments from VA. In 2008 this total will exceed 3.7 million. This is about 513,000, or 16 percent, more than the number of compensation and pension recipients in 2001.

The number of active duty service members as well as reservists and National Guard members who have been called to active duty to support Operation Enduring Freedom and Operation Iraqi Freedom is one of the key drivers of new claims activity. This has contributed to an increase in the number of new claims, and we expect this pattern to persist. An additional reason that the number of compensation and pension claims is climbing is the Department's commitment to increase outreach. We have an obligation to extend our reach as far as possible and to spread the word to veterans about the benefits and services VA stands ready to provide.

Disability compensation claims from veterans who have previously filed a claim comprise about 55 percent of the disability claims received by the Department each year. Many veterans now receiving compensation suffer from chronic and progressive conditions, such as diabetes, mental illness, and cardiovascular disease. As these veterans age and their conditions worsen, we experience additional claims for increased benefits.

The growing complexity of the claims being filed also contributes to our workload challenges. For example, the number of original compensation cases with eight or more disabilities claimed nearly doubled during the last 4 years, reaching more than 51,000 claims in 2006. Almost one in every four original compensation claims received last year contained eight or more disability issues. In addition, we expect to continue to receive a growing number of complex disability claims resulting from PTSD, environmental and infectious risks, traumatic brain injuries, complex combat-related injuries, and complications resulting from diabetes. Each claim now takes more time and more resources to adjudicate. Additionally, as VA receives and adjudicates more claims, this results in a larger number of appeals from veterans and survivors, which also increases workload in other parts of the Department, including the Board of Veterans' Appeals.

The Veterans Claims Assistance Act of 2000 has significantly increased both the length and complexity of claims development. VA's notification and development duties have grown, adding more steps to the claims process and lengthening the time it takes to develop and decide a claim. Also, we are now required to review the claims at more points in the adjudication process.

We will address our ever-growing workload challenges in several ways. First, we will continue to improve our productivity as measured by the number of claims processed per staff member, from 98 in 2006 to 101 in 2008. Second, we will continue to move work among regional offices in order to maximize our

resources and enhance our performance. Third, we will further advance staff training and other efforts to improve the consistency and quality of claims processing across regional offices. And fourth, we will ensure our claims processing staff has easy access to the manuals and other reference material they need to process claims as efficiently and effectively as possible and further simplify and clarify benefit regulations.

Through a combination of management/productivity improvements and an increase in resources in 2008 to support 457 additional staff above the 2007 level, we will improve our performance in the area most critical to veterans—the timeliness of processing rating-related compensation and pension claims. We expect to improve the timeliness of processing these claims to 145 days in 2008. This level of performance is 15 days better than our projected timeliness for 2007 and a 32-day improvement from the average processing time we achieved last year. In addition, we anticipate that our pending inventory of disability claims will fall to about 330,000 by the end of 2008, a reduction of more than 40,000 (or 10.9 percent) from the level we project for the end of 2007, and nearly 49,000 (or 12.9 percent) lower than the inventory at the close of 2006. At the same time we are improving timeliness, we will also increase the accuracy of our decisions on claims from 88 percent in 2006 to 90 percent in 2008.

Education and Vocational Rehabilitation and Employment Performance

In 2001, about 485,000 trainees took advantage of the readjustment and vocational rehabilitation and employment services offered by the Department. In 2006, that number swelled to over 614,000. From 2001 through 2006, nearly $15.6 billion was paid in support of these programs. In 2006 alone, $3.2 billion was obligated for readjustment programs, an increase of 82 percent from the 2001 level.

The largest readjustment program is the All Volunteer Force Educational Assistance Program, or the Montgomery GI Bill. Effective October 1, 2006, the monthly education benefit under this program rose to $1,075. This monthly rate is 60 percent higher than it was 5 years ago. This investment in education continues to produce clear and substantial benefits for veterans. For example, the unemployment rate among users of the Montgomery GI Bill is well below that of non-users, while earnings among program participants are higher than for non-users of the program.

With the resources we are requesting in 2008, key program performance will improve in both the education and vocational rehabilitation and employment programs. The timeliness of processing original education claims will improve by 15 days during the next 2 years, falling from 40 days in 2006 to 25 days in 2008. During this period, the average time it takes to process supplemental claims will improve from 20 days to just 12 days. These performance improvements will be achieved despite an increase in workload. The number of education claims we

expect to receive will reach about 1,432,000 in 2008, or 4.8 percent higher than last year. In addition, the rehabilitation rate for the vocational rehabilitation and employment program will climb to 75 percent in 2008, a gain of 2 percentage points over the 2006 performance level. The number of program participants will rise to about 94,500 in 2008, or 5.3 percent higher than the number of participants in 2006.

Our 2008 request includes $6.3 million for a Contact Management Support Center for our education program. These funds will be used during peak enrollment periods for contract customer service representatives who will handle all education calls placed through our toll-free telephone line. We currently receive about 2.5 million phone inquiries per year. This initiative will allow us to significantly improve performance for both the blocked call rate and the abandoned call rate.

The 2008 resource request for VBA includes about $4.3 million to enhance our educational and vocational counseling provided to disabled service members through the Disabled Transition Assistance Program. Funds for this initiative will ensure that briefings are conducted by experts in the field of vocational rehabilitation, including contracting for these services in localities where VA professional staff are not available. The contractors would be trained by VA staff to ensure consistent, quality information is provided. Also in support of the vocational rehabilitation and employment program, we are seeking $1.5 million as part of an ongoing project to retire over 650,000 counseling, evaluation, and rehabilitation folders stored in regional offices throughout the country. All of these folders pertain to cases that have been inactive for at least 3 years and retention of these files poses major space problems.

In addition, our 2008 request includes $2.4 million to continue a major effort to centralize finance functions throughout VBA, an initiative that will positively impact operations for all of our benefits programs. The funds to support this effort will be used to begin the consolidation and centralization of voucher audit, agent cashier, purchase card, and payroll operations currently performed by all regional offices.

National Cemetery Administration

The President's 2008 budget request includes $166.8 million in operations and maintenance funding for the National Cemetery Administration (NCA). These resources will allow us to meet the growing workload at existing cemeteries by increasing staffing and funding for contract maintenance, supplies, and equipment. We expect to perform nearly 105,000 interments in 2008, or 8.4 percent higher than the number of interments we performed in 2006. The number of developed acres (over 7,800) that must be maintained in 2008 will be 7.3 percent greater than last year.

The number of veteran deaths peaked in 2006 at about 687,600, or an average of 1,884 deaths per day. Due primarily to the aging of the Vietnam Era, Korean Conflict, and World War II populations, the number of veteran deaths will remain above 600,000 a year for the next 10 years. The next decade will also see workload growth at our national cemeteries.

Our budget request includes $3.7 million to prepare for the activation of interment operations at six new national cemeteries—Bakersfield, California; Birmingham, Alabama; Columbia-Greenville, South Carolina; Jacksonville, Florida; southeastern Pennsylvania; and Sarasota County, Florida. Establishment of these six new national cemeteries is directed by the National Cemetery Expansion Act of 2003.

The 2008 budget has $9.1 million to address gravesite renovations as well as headstone and marker realignment. These improvements in the appearance of our national cemeteries will help us maintain the cemeteries as shrines dedicated to preserving our Nation's history and honoring veterans' service and sacrifice.

With the resources requested to support NCA activities, we will expand access to our burial program by increasing the percent of veterans served by a burial option within 75 miles of their residence to 84.6 percent in 2008, which is 4.4 percentage points above our performance level at the close of 2006. In addition, we will continue to increase the percent of respondents who rate the quality of service provided by national cemeteries as excellent to 98 percent in 2008, or 4 percentage points higher than the level of performance we reached last year.

Capital Programs (Construction and Grants to States)

VA's 2008 request includes $1.078 billion in appropriated funding for our capital programs. Our request includes $727.4 million for major construction projects, $233.4 million for minor construction, $85 million in grants for the construction of state extended care facilities, and $32 million in grants for the construction of state veterans cemeteries.

The 2008 request for construction funding for our health care programs is $750 million—$570 million for major construction and $180 million for minor construction. All of these resources will be devoted to continuation of the Capital Asset Realignment for Enhanced Services (CARES) program, total funding for which comes to $3.7 billion over the last 5 years. CARES will renovate and modernize VA's health care infrastructure, provide greater access to high-quality care for more veterans, closer to where they live, and help resolve patient safety issues. Within our request for major construction are resources to continue six medical facility projects already underway:

- Denver, Colorado ($61.3 million)—parking structure and energy development for this replacement hospital

- Las Vegas, Nevada ($341.4 million)—complete construction of the hospital, nursing home, and outpatient facilities
- Lee County, Florida ($9.9 million)—design of an outpatient clinic (land acquisition is complete)
- Orlando, Florida ($35.0 million)—land acquisition for this replacement hospital
- Pittsburgh, Pennsylvania ($40.0 million)—continue consolidation of a 3-division to a 2-division hospital
- Syracuse, New York ($23.8 million)—complete construction of a spinal cord injury center.

Minor construction is an integral component of our overall capital program. In support of the medical care and medical research programs, minor construction funds permit VA to address space and functional changes to efficiently shift treatment of patients from hospital-based to outpatient care settings; realign critical services; improve management of space, including vacant and underutilized space; improve facility conditions; and undertake other actions critical to CARES implementation. Our 2008 request for minor construction funds for medical care and research will provide the resources necessary for us to address critical needs in improving access to health care, enhancing patient privacy, strengthening patient safety, enhancing research capability, correcting seismic deficiencies, facilitating realignments, increasing capacity for dental services, and improving treatment in special emphasis programs.

We are requesting $191.8 million in construction funding to support the Department's burial program—$167.4 million for major construction and $24.4 million for minor construction. Within the funding we are requesting for major construction are resources to establish six new cemeteries mandated by the National Cemetery Expansion Act of 2003. As previously mentioned, these will be in Bakersfield ($19.5 million), Birmingham ($18.5 million), Columbia-Greenville ($19.2 million), Jacksonville ($22.4 million), Sarasota ($27.8 million), and southeastern Pennsylvania ($29.6 million). The major construction request in support of our burial program also includes $29.4 million for a gravesite development project at Fort Sam Houston National Cemetery.

Information Technology

VA's 2008 budget request for information technology (IT) is $1.859 billion. This budget reflects the first phase of our reorganization of IT functions in the Department which will establish a new IT management structure in VA. The total funding for IT in 2008 includes $555 million for more than 5,500 staff who have been moved to support operations and maintenance activities. Prior to 2008, the funding and staff supporting these IT activities were reflected in other accounts throughout the Department.

Later in 2007 we will implement the second phase of our IT reorganization strategy by moving funding and staff devoted to development projects and activities. As a result of the second stage of the IT reorganization, the Chief Information Officer will be responsible for all operations and maintenance as well as development activities, including oversight of, and accountability for, all IT resources within VA. This reorganization will make the most efficient use of our IT resources while improving operational effectiveness, providing standardization, and eliminating duplication.

This major transformation of IT will bring our program under more centralized control and will play a significant role in ensuring we fulfill my promise to make VA the gold standard for data security within the federal government. We have taken very aggressive steps during the last several months to ensure the safety of veterans' personal information, including training and educating our employees on the critical responsibility they have to protect personal and health information, launching an initiative to expeditiously upgrade all VA computers with enhanced data security and encryption, entering into an agreement with an outside firm to provide free data breach analysis services, initiating any needed background investigations of employees to ensure consistency with their level of authority and responsibilities in the Department, and beginning a campaign at all of our health care facilities to replace old veteran identification cards with new cards that reduce veterans' vulnerability to identify theft. These steps are part of our broader commitment to improve our IT and cyber security policies and procedures.

Within our total IT request of $1.859 billion, $1.304 billion (70 percent) will be for non-payroll costs and $555 million (30 percent) will be for payroll costs. Of the non-payroll funding, $461 million will support projects for our medical care and medical research programs, $66 million will be devoted to projects for our benefits programs, and $446 million will be needed for IT infrastructure projects. The remaining $331 million of our non-payroll IT resources in 2008 will fund centrally-managed projects, such as VA's cyber security program, as well as management projects that support department-wide initiatives and operations like the replacement of our aging financial management system and the development and implementation of a new human resources management system.

The most critical IT project for our medical care program is the continued operation and improvement of the Department's electronic health record system, a Presidential priority which has been recognized nationally for increasing productivity, quality, and patient safety. Within this overall initiative, we are requesting $131.9 million for ongoing development and implementation of Health*e*Vet-VistA (Veterans Health Information Systems and Technology Architecture). This initiative will incorporate new technology, new or reengineered applications, and data standardization to improve the sharing of, and access to, health information, which in turn, will improve the status of veterans' health through more informed clinical care. This system will make use

of standards accepted by the Secretary of Health and Human Services that will enhance the sharing of data within VA as well as with other federal agencies and public and private sector organizations. Health data will be stored in a veteran-centric format replacing the current facility-centric system. The standardized health information can be easily shared between facilities, making patients' electronic health records available to them and to all those authorized to provide care to veterans.

Until HealtheVet-VistA is operational, we need to maintain the VistA legacy system. This system will remain operational as new applications are developed and implemented. This approach will mitigate transition and migration risks associated with the move to the new architecture. Our budget provides $129.4 million in 2008 for the VistA legacy system. Funding for the legacy system will decline as we advance our development and implementation of HealtheVet-VistA.

In veterans benefits programs, we are requesting $31.7 million in 2008 to support our IT systems that ensure compensation and pension claims are properly processed and tracked, and that payments to veterans and eligible family members are made on a timely basis. Our 2008 request includes $3.5 million to continue the development of The Education Expert System. This will replace the existing benefit payment system with one that will, when fully deployed, receive application and enrollment information and process that information electronically, reducing the need for human intervention.

VA is requesting $446 million in 2008 for IT infrastructure projects to support our health care, benefits, and burial programs through implementation and ongoing management of a wide array of technical and administrative support systems. Our request for resources in 2008 will support investment in five infrastructure projects now centrally managed by the CIO—computing infrastructure and operations ($181.8 million); network infrastructure and operations ($31.7 million); voice infrastructure and operations ($71.9 million); data and video infrastructure and operations ($130.8 million); and regional data centers ($30.0 million).

VA's 2008 request provides $70.1 million for cyber security. This ongoing initiative involves the development, deployment, and maintenance of a set of enterprise-wide controls to better secure our IT architecture in support of all of the Department's program operations. Our request also includes $35.0 million for the Financial and Logistics Integrated Technology Enterprise (FLITE) system. FLITE is being developed to address a long-standing material weakness and will effectively integrate and standardize financial and logistics data and processes across all VA offices as well as provide management with access to timely and accurate financial, logistics, budget, asset, and related information on VA-wide operations. In addition, we are asking for $34.1 million for a new state-of-the-art human resource management system that will result in an electronic employee

record and the capability to produce critical management information in a fraction of the time it now takes using our antiquated paper-based system.

Summary

Our 2008 budget request of $86.75 billion will provide the resources necessary for VA to:

- strengthen our position as the Nation's leader in providing high-quality health care to a growing patient population, with an emphasis on those who count on us the most—veterans returning from service in Operation Iraqi Freedom and Operation Enduring Freedom, veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs;
- improve the delivery of benefits through the timeliness and accuracy of claims processing; and
- increase veterans' access to a burial option by opening new national and state veterans' cemeteries.

I look forward to working with the members of this committee to continue the Department's tradition of providing timely, high-quality benefits and services to those who have helped defend and preserve freedom around the world.